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UNCLAS ANKARA 002151

SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB  
TREASURY FOR U/S TAYLOR AND OASIA - MILLS  
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [TU](#)

SUBJECT: TURKISH ECONOMY APRIL 2: MARKETS QUIET, GUARDED  
OPTIMISM; SLOW TOURIST SEASON BEGINS

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distribution.

[11.](#) (SBU) Summary: Turkish financial markets improved slightly in morning trading April 2. Local analysts see a positive scenario for the April 8 debt auctions, based on the GOT signing the IMF letter of intent, and Congress passing the aid for Turkey. The 30-week tourist season opens this week, and early anecdotes suggest a slow year. Despite the dire warnings from Turks, it is too early to predict how this war will affect Turkey's tourism revenue and other balance of payments components in 2003 (the IMF has postponed its assessment until the late May Fifth Review). In any case the greater macro-economic problem for Turkey remains financing the budget. End Summary.

#### Guarded Optimism in Markets

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[12.](#) (U) Turkish financial markets on the morning of April 2 were quiet and guardedly optimistic. The lira appreciated about 0.5 percent to TL 1,690,000; T-bill yields were steady at 65 percent compounded; the Istanbul Stock Exchange was down 0.2 percent in light trading.

[13.](#) (SBU) The Secretary's visit has a positive potential for market sentiment, per JP Morgan/Chase bond trader Gumisdis, since it is seen as increasing the probability of Congress approving the \$1 billion grant aid. Markets are seeking confirmation of this in the Secretary's afternoon press conference in Ankara. Analysts see a positive scenario for the April 8 debt auctions based on signing of the LOI (now expected for April 3), and Congress passing the U.S. aid.

[14.](#) (U) The focus remain on the April 8 T-bill auctions. Treasury Deputy U/S Ozyildiz told us U/S Oztrak will go to Istanbul on April 4 to talk up debt dynamics with the Turkish banks. Ozyildiz said latest year-end calculations show Turkey's net public sector debt to GNP ratio declining to 78 percent, largely because of the lira's real appreciation during 2002 and the high percentage of debt linked to the exchange rate.

#### Tourist Season Opens Weakly; Too Early to Predict Macro Effects

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[15.](#) (U) Turkey's 30-week, April - October tourist season begins this week, and anecdotal evidence suggests a slow year. Hotels on the Mediterranean coast are delaying their spring re-open date and reporting a high cancellation rate for summer. President of Turkey's tourism agencies association claimed to the local press that if the war doesn't end in April, the tourism sector "will collapse."

[16.](#) (SBU) In 2002, tourism revenues amounted to between \$9.5 - 10 billion (initial projections were \$8.5 billion). In the 1991, Turkey's tourism revenues dropped about 20 percent. Using the last Gulf War's effect on tourism as an indicator, we could speculate that Turkey might lose about \$2 billion in tourism revenue this year. But using the last Gulf War (which ended in February) as a model might well understate the effect on tourism this war, depending on the duration of this war.

[17.](#) (SBU) Comment: It is too early to predict how this war will affect Turkey's balance of payments (capital flows,

which are larger than tourism revenues, are also uncertain). The IMF is postponing its revision of the macro framework until the Fifth Review, tentatively scheduled for late May. In any case, Turkey's main problem remains financing the budget, not the balance of payments. The floating exchange rate should over time correct balance of payments deficits via lira depreciation. The problem is lira depreciation leads to higher inflation, higher interest rates, and greater debt burdens; lira depreciation also increases the foreign-exchange-linked debt. It's the budget. End Comment.  
PEARSON